

MITIGATING THE EFFECTS OF A CITY WORKFORCE REDUCTION

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EXECUTIVE SUMMARY

Due to an internal reorganization and estimated \$50 million revenue shortfall in 2003, the City of Seattle expects to reduce its workforce during 2002. We conducted this study to provide historical and current information on the City's workforce, to evaluate the cost and effectiveness of the City's 1996 Job Security Program, and to explore both traditional and unique benefits provided by public and private employers to employees who are at risk of layoff. We found that the City expanded its workforce and minimized layoffs from 1989 to 2002. We also determined that the Job Security Program successfully mitigated the effects of a 1997 workforce reduction, and that the City could offer cost-effective transition benefits to reduce the impact of currently anticipated layoffs.

Finding 1: The City Workforce Expanded by Ten Percent from 1989 to 2002, and Minimized Layoffs during the 14-Year Period.

The City expanded its workforce by approximately 10 percent, from approximately 10,355 positions in 1989 to 11,113 positions in 2002. Although the City's overall workforce expanded and contracted during this period, the City was able to mitigate the impact of workforce reductions on its employees. An annual average of nine City employees was laid off between 1995 and 2001, ranging from a high of 13 employees to a low of four employees, resulting from abrogated positions. The nine City layoffs represented less than a 0.1 percent reduction, demonstrating the City's consistent commitment to assist at-risk employees with job transitions.

Finding 2: The City's 1996 Job Security Program Successfully Mitigated the Effects of a 1997 Revenue Shortfall and Anticipated Workforce Reduction.

In 1996, the Mayor and City Council directed the City Personnel Director to implement a Job Security Program for eligible, non-represented employees to reduce the effects of a significant workforce reduction. The Job Security Program provided at-risk City employees with a unique package of early separation incentives, retraining, sabbatical leave, in-placement job services, and severance pay options to promote voluntary employee separations prior to 1997.

The cost of the Job Security Program was \$3,680,894, including the projected lifetime early retirement costs. However, the Job Security Program achieved a \$6,778,993 saving and \$3,098,099 net saving during 1997, the first full year that the program was implemented. In addition, the Job Security Program was highly successful in reducing the City's workforce and mitigating employee layoffs. Approximately 250 full-time positions were abrogated, and only 12 employees were laid off at the end of 1996.

Finding 3: The City Could Minimize the Adverse Impacts of Layoffs through Low- and Moderate-Cost Transition Services.

Both public and private employers offered separation packages to mitigate the effects of a reduction in force. Typical separation packages offered by local government agencies included appropriate layoff notification; prepared exit information based on internal layoff policies and

employee rights (i.e., transfer, bumping, and recall rights as well as COBRA benefits); and limited internal placement services such as assistance with résumé preparation and job interviews. Washington State offered a more comprehensive package of separation benefits, including formally organized information forums with employment transition experts; in-depth career service classes; intensive individual counseling sessions; and access to work space with computers and other valuable job search resources. Manager's toolkit sessions were also organized on delivering notifications, integrating personnel who exercise transfer and bumping rights, and managing a workplace affected by layoffs. Common separation packages offered by private employers included severance payments, enhanced severance payments if employees signed anti-disparagement agreements or waived their rights to file legal claims, outplacement services, and paid health benefits, generally ranging from one to six months.

Traditionally, employees who are at risk of a layoff are most concerned about the ability to access information and resources necessary to transition into alternate employment, continued health benefit coverage, and dealing with financial and personal issues resulting from a job loss. Continued health benefits for laid-off City employees would cost an average of \$488 per employee each month. Based on information provided by the surveyed employers, the cost of individual employee and job search assistance services is \$100 per hour, and the average cost of a one-day career service workshop is approximately \$1,000 per class. Costs for a full range of career and employment services, including résumé preparation, job-interviewing skills training, and outplacement assistance, are between \$1,200 and \$8,000 depending on the classification (i.e., administrative, management, etc.) of positions sought by the affected employees.

RECOMMENDATIONS

The Mayor and City Council may want to adopt an ordinance that authorizes the Personnel Director to refocus current employee assistance and training funds and contractual resources on the development of employment transition programs, including development of formal job skills; résumé preparation, financial planning, and counseling services. The Personnel Department could also organize a one-day forum to provide City employees with access to the information and professional services from various City agencies, such as the Seattle City Employees' Retirement System, Deferred Compensation Program, and the Employee Assistance Program. The Personnel Department and other City departments could also develop a program to allow at-risk employees to use City training facilities to access computers, the Internet, and other employment-related resources during specific time periods. Access for at-risk employees located in remote locations will also need to be considered.

In addition, the Mayor and City Council may want to consider asking the Personnel Department and other City agencies to develop formal communication plans that convey accurate and consistent information to at-risk employees and to other City employees who will need to maintain or rebuild morale in a transitioning workplace. The Personnel Department should actively market the services available to at-risk employees. Finally, the Mayor and City Council may want to consider adopting an ordinance that authorizes the Personnel Director to develop a severance pay option that can be applied toward the purchase of job search services, health benefits, and employee assistance services (i.e., financial planning, personal counseling, etc.) subsequent to the layoff.

CHAPTER I: INTRODUCTION AND BACKGROUND

This study presents historical information on fluctuations in the City's workforce based upon data provided by the Department of Finance. The study also evaluates the effectiveness and cost of the City of Seattle's Job Security Program, which the City implemented in response to budget conditions created by a similar economic downturn in 1996. The Job Security Program offered City employees a variety of economic incentives and employment services to encourage voluntary separations and to mitigate layoffs. In addition, the study explores both traditional and unique services that public and private employers provided to employees who were at risk of layoff in 2001 and 2002.

Approximately 65,000 employees lost their jobs in the Puget Sound region last year, and Washington State's unemployment rate rose to 7.6 percent in early 2002. Although the national economy is showing early signs of recovery, Washington State economists are predicting a slower recovery in the Puget Sound region. Washington State is not expected to achieve a full economic recovery until 2003. One City reorganization is already underway that will result in a limited workforce reduction in June 2002. The Mayor indicated that further reductions are likely in 2002 based on the City's projected \$50 million revenue shortfall.

Reducing the City's workforce and assisting employees affected by layoffs is a daunting responsibility. As a municipal employer with a substantial workforce, the City will need to ensure that employees are treated fairly, and provided relevant information and services to facilitate their transition to alternate employment.

Seattle City Charter and Seattle Municipal Code Layoff Provisions

Article XVI, Section 1, of the Seattle City Charter, establishes the personnel system and assigns the responsibility for administering the system to the Personnel Director. Consistent with the Charter provision requiring the establishment of uniform layoff and recall procedures, Seattle Municipal Code (SMC) 4.04.220 sets forth the procedures governing a City workforce reduction, including order of layoffs, exceptions to the normal order of layoff, employee notification, and transfer, bumping, reinstatement, and recall procedures.

In March 2002, the Personnel Department developed and distributed *Layoff Guidelines for Human Resources Representatives*, which provides general direction to City departments implementing layoffs. The layoff guidelines contain references to web sites that provide at-risk employees relevant information to make important life and work decisions (i.e., an *Exit Guide for Employees Leaving City Employment* and the *Project Hire Program Guidelines*).

Both Public and Private Agencies Employ Similar Techniques to Avoid Layoffs and Offer Services to Mitigate the Effects of Layoffs

Public and private agencies employed similar techniques to avoid layoffs and offered services to minimize the effects of a layoff. Common techniques among public and private employers to avoid layoffs due to economic downturns and budget deficits included hiring freezes, initiatives to reduce non-salary expenditures, organizational restructuring, redesigning work processes,

retraining programs, limiting the use of outside contractors and consultants, restricting overtime, and voluntary and mandatory transfers and downgrades.

When workforce reductions were necessary, public and private employers offered creative and varied separation packages to mitigate the effects of a layoff. Although public employers tended to offer similar separation packages, no two private employers offered the same packages, and individual employers modified their packages depending on the severity of economic downturns and degree of future uncertainty regarding future financial conditions. Exhibit 1 below displays the traditional services offered by ten public and eight private employers surveyed during the past six months. Services are categorized as “uncommon” if less than 25 percent of the surveyed employers offered the services to at-risk employees, or “common” if more than 25 percent of the employers offered the services.

EXHIBIT 1 PUBLIC AND PRIVATE EMPLOYERS’ INCENTIVES AND SERVICES TO MINIMIZE THE EFFECTS OF A LAYOFF		
Transition Incentives and Services	Public Jurisdictions	Private Corporations
Early Retirement Incentives	Uncommon	Not Available ¹
Stock Options/Matches	Not Available	Not Available ¹
Severance Pay or Cash Buyout	Uncommon	Common
Outplacement Services and Career Centers ²	Uncommon	Common
Internal Placement Services, Transfers, Bumping, and Downgrades	Common	Not Available
Recall and Reinstatement Rights	Common	Uncommon
Employer-Paid Health Benefits	Uncommon	Common
Employee-Paid COBRA Benefits ³	Common	Common
Employee Assistance Program ⁴	Common	Common
Education/Job Training	Uncommon	Uncommon
Sabbatical	Uncommon	Uncommon
Unemployment Insurance	Common	Common
Source: Office of City Auditor, Survey of Public and Private Employers, 2001. Notes: ¹ None of the surveyed public and private employers planned to offer early retirement incentives and stock options to at-risk employees, although two public and two private agencies offered early retirement and stock packages during a layoff cycle in the mid-1990s. ² Career centers typically offer employees access to computers, telephones, the Internet, fax machines, or other job search resources. ³ A layoff is a qualifying event under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) to continue medical, dental, and vision plans for an 18-month period if employees pay the insurance premiums. ⁴ Employee Assistance Program services to City employees end with employment and are unavailable to employees subsequent to a layoff.		

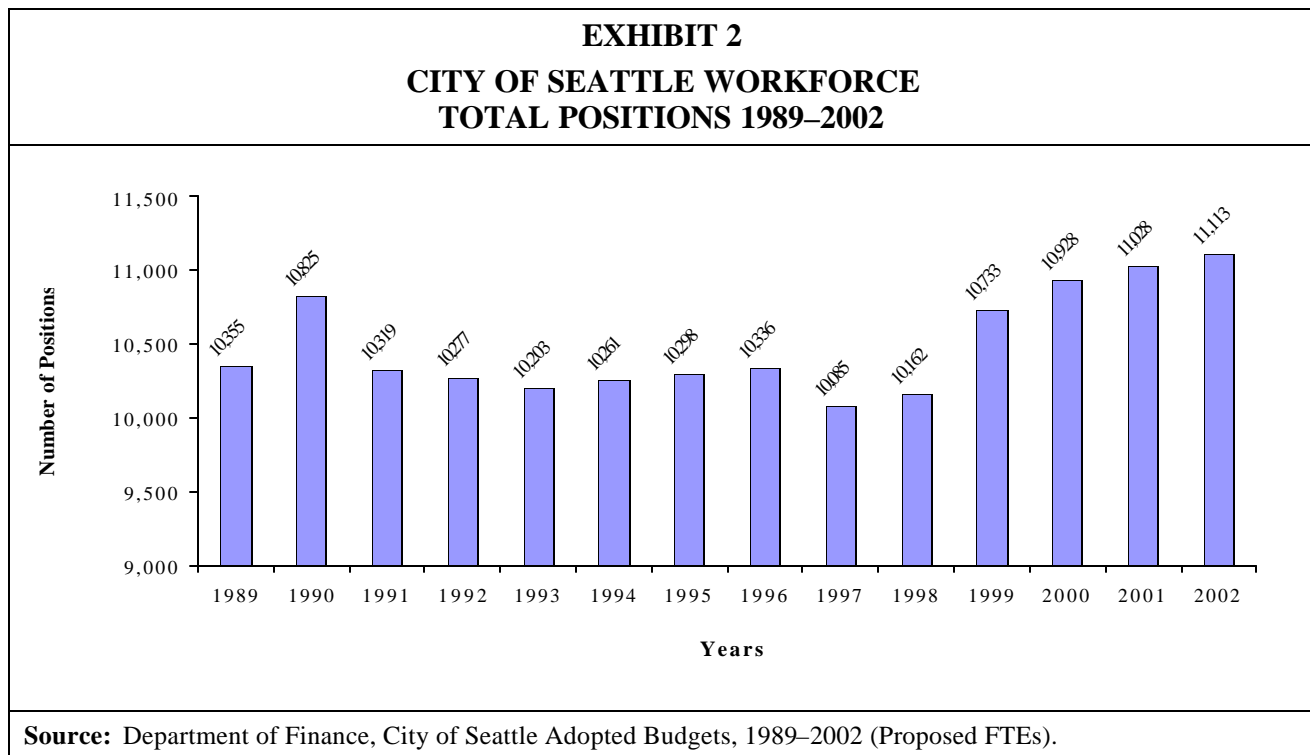
As shown in Exhibit 1 above, common services for minimizing the effects of a layoff among public employers included transfer and bumping options, recall and reinstatement rights, job search preparation and internal placement services, COBRA benefits, and unemployment insurance. Private employers typically offered separation packages that included severance pay, cash buyouts, outplacement and internal job placement services, employer-paid health benefits, limited recall options, and employment insurance to assist employees affected by a layoff, as well as to reduce potential legal claims. We refer to these traditional services throughout this study and also explore several nontraditional incentives to reduce layoffs in more detail.

CHAPTER II: MITIGATING CITY WORKFORCE REDUCTIONS

We conducted this study to provide historical and current information on the City's workforce, to evaluate the effectiveness of the City's 1996 Job Security Program, and to explore both traditional and unique services provided by public and private employers to employees who are at risk of layoff. Based on our analysis, we found that the City expanded its workforce and minimized layoffs from 1989 to 2002. We also determined that the Job Security Program successfully mitigated the effects of a 1997 revenue shortfall and workforce reduction, and that cost-effective transition services could reduce the impact of currently anticipated layoffs.

FINDING 1: THE CITY WORKFORCE EXPANDED BY TEN PERCENT BETWEEN 1989 AND 2002, WITH SIGNIFICANT FLUCTUATIONS IN THREE PROGRAM AREAS. LAYOFFS WERE ALSO MINIMIZED DURING THE SAME PERIOD.

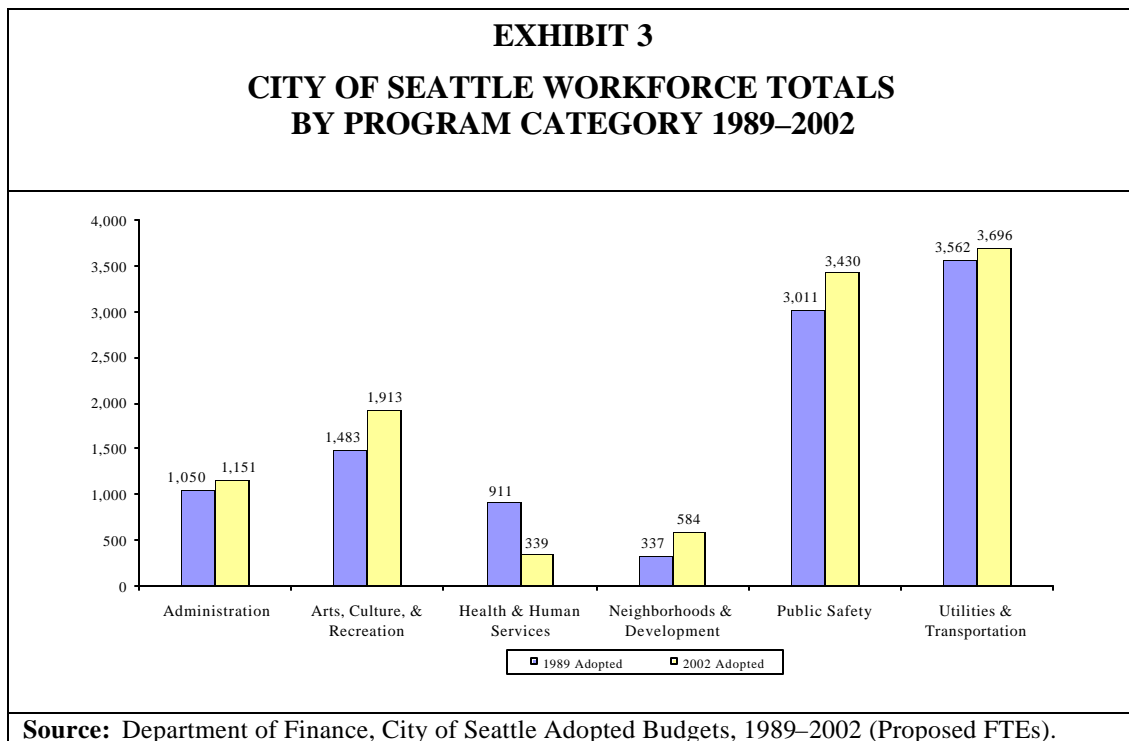
The City expanded its workforce by ten percent between 1989 and 2002, increasing from approximately 10,355 positions in 1989 to 11,113 positions in 2002. Exhibit 2 below displays the City's annual workforce for the 14-year period.



As shown in Exhibit 2 above, the City's workforce fluctuated during the 14-year ranging from a low of 10,085 positions in 1997, during the last significant economic downturn in the Puget Sound region, to a high of 11,113 positions in 2002.

Exhibit 3 below displays the City workforce by program category between 1989 and 2002, reflecting significant fluctuations in three program areas: Health and Human Services; Neighborhoods and Development; and Arts, Culture, and Recreation. (Please see Appendix 1

for an annual listing of the total full-time equivalent positions for the six program categories, as well as the percent changes for each category for the entire 14-year period and for the five-year period subsequent to the last economic downturn.)



As shown in Exhibit 3 above, Health and Human Services positions were reduced from 998 in 1990 to 201 in 1991 (80 percent), primarily due to the transfer of the Seattle-King County Health Department from the City to King County. The total Health and Human Services categorical decrease was 62.7 percent during the 14-year review period.

The number of positions allocated to Neighborhoods and Development rose from 337 in 1989 to 584 in 2002 (73 percent), due to significant growth, increased economic and land use development activities, and the City's strong commitment to maintain City neighborhoods. Growth in the Arts, Culture, and Recreation program category was less dramatic at 29 percent during the 14-year review period, beginning with 1,483 positions in 1989 and ending with 1,913 positions in 2002. Increased citizen interest and participation in City culture and recreational opportunities contributed to the growth in City positions in this category.

Although the City's overall workforce expanded and contracted between 1995 and 2001, the City was able to minimize the impact of workforce reductions on its employees. An annual average of only nine City employees was laid off between 1995 and 2001, ranging from a high of 13 employees to a low of four employees. Layoffs during this period resulted primarily from abrogated positions, and 19 percent of the positions were abrogated in 1996 coinciding with the last economic downturn. The nine City layoffs represented less than a 0.1 percent reduction given that the City maintained an annual average of 10,585 positions between 1995 and 2001, demonstrating the City's consistent commitment to assist at-risk employees with job transitions.

FINDING 2: THE CITY'S 1996 JOB SECURITY PROGRAM SUCCESSFULLY MITIGATED THE EFFECTS OF A 1997 REVENUE SHORTFALL AND ANTICIPATED WORKFORCE REDUCTION.

Historically, the City has offered a package of traditional services to employees who are affected by a workforce reduction, such as internal placement services; transfers, bumping, and recall options, and COBRA health benefits. However, approximately 400 full-time equivalent positions were at risk of abrogation at the end of 1996, due to a significant revenue shortfall. The Mayor and City Council directed the City Personnel Director to implement a Job Security Program for eligible, non-represented employees to reduce the effects of the workforce reduction.

Implemented in April 1996, the Job Security Program offered a unique package of early separation incentives, retraining, sabbatical leave, in-placement job services, and severance pay options to promote voluntary employee separations prior to 1997. The Job Security Program was highly successful in reducing the City's workforce and mitigating employee layoffs. Approximately 250 full-time positions were abrogated, and only 12 employees were laid off at the end of 1996.

Exhibit 4 below displays the Job Security Program options, number of City employees who applied for the program either voluntarily or due to actual risk of layoff, the number of employees that received services, and the Job Security Program option costs.

EXHIBIT 4 1996 JOB SECURITY PROGRAM OPTIONS, PARTICIPATING EMPLOYEES, OUTCOMES, AND COSTS			
Job Security Program Options	Number of Employee Applications	Number of Transitions or Completions	Option Costs
Early Separation Incentive Program (Buyout and Retirement Credit Purchase Options)	363	137	\$2,601,820
Project Hire Program—Internal Placement Program	177	177	Absorbed ¹
Retraining Program	10	10	6,865
Severance Payments (In Lieu of Rehire Option)	2	2	4,000
Sabbatical Leave Program	9	9	37,000 ²
Total Participants and Costs	561	335	\$2,649,685
Source: City of Seattle Department of Personnel, <i>1996 Job Security Program Report Memorandum</i> (March 19, 1997). Notes: ¹ The Personnel Department and other City departments absorb Project Hire Program costs. ² The maximum estimated cost of the sabbatical leave program was \$37,000 based on an average of 1996 and 1997 insured benefit costs for nine employees for a full 12-month leave period.			

As shown in Exhibit 4 above, 335 City employees received services from the Job Security Program at a cost of \$2,649,685. The primary beneficiaries of the Job Security Program were the 137 City employees who received \$2,601,820, or an average of \$19,000 per employee, to voluntarily separate from City employment.

The early separation incentive program provided a cash buyout to eligible employees equivalent to one week's salary for each year of completed service up to a maximum of \$30,000. City employees could elect to receive the separation incentive pay in a lump sum cash payment; apply the incentive pay toward the purchase of a maximum of four additional years of retirement service credit; apply the incentive pay toward the cost of health-care benefits at the City's COBRA rate for a maximum of 18 months; or select a combination of the three options.

Because City employees could apply cash buyouts toward the purchase of additional retirement service credits, we adjusted the Job Security Program cost based on an analysis of the City's total or lifetime net cost of the incremental retirement service credits. Exhibit 5 below displays a comparison of the total Job Security Program cost and savings.

EXHIBIT 5 1996 JOB SECURITY PROGRAM COST AND SAVINGS COMPARISON		
Job Security Program Costs		
Job Security Program Package	\$2,649,685	
Estimated Incremental Retirement Benefit	1,031,109	
Total Estimated Cash and Retirement Benefit		\$3,680,894
1996 and 1997 Job Security Program Savings		
1996 Salary Savings	\$1,087,142	
1997 Salary Savings	\$6,184,325	
Benefits Savings	594,668	
Total Estimated Salary and Benefit Savings		\$7,866,135
Net Job Security Program Savings		\$4,185,241
Sources: City of Seattle Department of Personnel, <i>1996 Job Security Program Report Memorandum</i> (March 19, 1997), the Seattle City Employment Retirement System, and the Center for Disease Control <i>National Vital Statistics Reports, Vol. 48, No.18</i> . Notes: The total estimated salary savings include the salaries of employees who opted for either the early separation or sabbatical leave. The total estimated cost of the retirement benefit is based on the projected incremental or additional lifetime monthly benefits for the employees who applied their early separation incentives toward the purchase of retirement credits and is not discounted.		

Based upon our analysis, the Job Security Program achieved a saving of \$7,866,135 during 1996 and 1997. A net savings of \$4,185,241 was achieved for those City employees who participated in the Job Security Program, based upon a comparison of the 1997 savings and the lifetime costs of the program. Additional savings were also accrued during the final quarter of 1996 as employees began exiting City employment, and in 1998 as City departments gradually replaced

or refilled the abrogated positions. The City's net savings would increase if the undetermined 1998 salary savings were included.

In conclusion, the Job Security Program was highly successful in reducing the City's workforce and mitigating employee layoffs. More than 335 employees received financial incentives and job transition services, with a net cost savings of \$4,185,241. Approximately 250 full-time positions were abrogated,¹ and only 12 employees were laid off at the end of 1996.

FINDING 3: THE CITY COULD MINIMIZE THE ADVERSE IMPACTS OF LAYOFFS THROUGH LOW- AND MODERATE-COST TRANSITION SERVICES.

This finding addresses traditional and unique separation packages offered by ten public employers in Washington State or comparable in size to the City of Seattle, and eight private employers located in or serving Washington State. This finding also describes separation packages with low or moderate costs that the City could consider to mitigate the adverse impact of layoffs in preparing for a 2003 workforce reduction. As noted earlier in this chapter, both public and private employers offered separation packages to mitigate the effects of a reduction in force. While public employers tended to provide similar separation packages, none of the private employers offered identical separation packages. The current separation packages provided by both public and private employers also tended to be less generous than the packages offered to at-risk employees during previous economic downturns.

Public Employers in Washington State Offer Traditional Separation Services

Public sector employers facing revenue shortfalls were generally unable to provide extensive severance packages to employees at risk of layoff. In fact, the City's 1996 Job Security Program was unique in terms of the separation packages offered to at-risk employees by public employers in the state of Washington. We surveyed ten public agencies located in the state of Washington or comparable in size to the City to determine what separation options were offered to public employees who were laid off in 2001 or at risk of layoff in 2002.² Although several surveyed agencies avoided layoffs in 2001, each local government provided information on typical separation packages. Those packages included appropriate layoff notification,³ prepared exit information based on internal layoff policies and employee rights (i.e., transfer, bumping, and recall rights as well as COBRA benefits), and limited internal placement services such as assistance with résumé preparation and job interviews. Several local government employers commented on severe budgetary restrictions and the absence of authority to offer additional separation services, such as an early retirement option, because employees are members of state-administered retirement systems.

¹The City abrogated two hundred and fifty (250) rather than 400 positions by the end of 1996. A City hiring freeze and other workforce reduction mitigation factors also contributed to the 250 abrogated positions. The former Personnel Director indicated that the salary savings accrued from the 1996 hiring freeze and early voluntary exits covered the early separation incentive costs.

²The state of Washington; cities of Bellevue, Everett, San Diego, Tacoma, and Phoenix; King, Pierce, and Snohomish Counties; and the City and County of Denver provided information on separation options.

³The Federal Worker Adjustment and Retraining Notification Act requires that employers provide a 60-day advance notice of mass layoffs (i.e., for 500 or more employees).

In contrast to the local government agencies, Washington State offers a more comprehensive package of separation services in addition to the traditional separation services for employees at risk or affected by a layoff. Washington State provides work space, personal computers, Internet access, telephones, job listings, a copier, and a fax machine for state employees to work on résumés, cover letters, and job marketing. Formal career service classes are also offered covering résumés, cover letters, effective interviewing, exploring and defining skills, and creating career plans. Individual counseling is available for employees who may face severe problems in finding another position. (Training and consulting fees are charged to the employees' hiring agencies.)

Recognizing that workforce reductions are complicated and stressful for employees, Washington State has also developed a Reduction in Force Resources and Information Forum. During the one-day forum, experts from the Department of Personnel, Deferred Compensation, Employment Security, Retirement Services, the State Library, and the Washington State Employees' Credit Union provide information and respond to questions from employees at risk or affected by layoffs. Individual workshops that run approximately 60 to 90 minutes include employee assistance resources, the reduction in force transition pool, and employee rights in addition to job search and labor market information. The state also offers a managers' toolkit session on delivering notifications, integrating personnel who exercise transfer and bumping rights, and managing a workplace that is affected by a workforce reduction.

Private Employers Located in or Serving Washington State Offer Generous Separation Packages

Private corporations generally have greater flexibility than public jurisdictions in developing separation packages for employees who are at risk or affected by a layoff. In addition, private corporations tend to design separation packages that not only encourage voluntary separations, but also minimize legal claims. (Appendix 2 displays the eight surveyed private employers and the separation services available to employees at risk of layoff.)

All of the surveyed private employers offered severance payments to employees who were laid off, and some offered enhanced severance payments if employees signed anti-disparagement agreements or waived their rights to file legal claims. In addition, all private employers provided paid health benefits, generally from a minimum of one month to a maximum of six months. All but one private employer offered employment services, but only two private employers provided education benefits or sabbaticals.

None of the private employers offered or planned to offer retirement packages and stock options to employees currently at risk, although several private employers indicated that they offered such packages during previous layoff cycles. For example, the Boeing Company offered its machinists an early retirement option during a 1995 layoff by adding five years to their credited service and three years to their age. The formula added an average of \$175 to machinists' monthly pension checks. However, the Boeing Company did not offer an early retirement option to machinists during the 2001 and 2002 layoff cycle. Other private employers similarly indicated that voluntary separation incentives were reduced due to economic forecasts predicting a slow recovery and due to increased uncertainty within specific industries.

Litigation Threat Intensifies During Recessions

According to Perkins Coie LLP, layoffs are a period of “heightened litigation exposure,” particularly during a recession. Age and sex discrimination as well as sexual harassment claims tend to increase as the time lengthens between jobs and laid-off employees perceive that alternative job opportunities are limited. Breach of contract, retaliation, and violation of policies or procedures are also typical claims.

Both public and private employers are concerned that litigation resulting from a mismanaged workforce reduction may divert attention from business as well as generate negative publicity.⁴ Legal firms offer consistent advice to employers to avoid such claims. Employers are advised to formulate workforce reduction plans carefully,⁵ and to conduct an adverse impact review to ensure that a workforce reduction can withstand challenge for both intentional and unintentional adverse impacts on protected employee groups. Legal firms also advise employers to focus on eliminating positions, not individuals, in order to make objective, understandable decisions. Employers are also advised to be honest, provide consistent information, and avoid both formal and informal communications that could be taken out of context to suggest inappropriate decision-making. Employees are less likely to file claims against former employers if they receive adequate notice of a layoff, understand the reasons for the layoff, and believe they have been treated fairly.

Rebuilding Employee Morale Is Crucial

Recognizing the costs associated with a workforce reduction is crucial. In addition to severance and employment transition services, the City will likely be impacted by the loss of knowledge from skilled workers, as well as damaged trust and credibility. Remaining employees generally have lost friends and colleagues, and are often concerned that they will also lose their jobs. Reduced productivity and innovation are also likely because employees may feel justified spending City time looking for a new job and become risk-averse subsequent to a layoff.

Rebuilding employee morale becomes critical after a layoff. City managers are encouraged to explain to the remaining workforce how and why decisions were made, and what the outlook is for the future. Other approaches for rebuilding employee morale are maintaining life-work programs and offering leadership development activities. In critical skills areas, retention incentives may be necessary (i.e., training and development opportunities).

The provincial government of British Columbia, which is currently implementing a multiyear, 8,000- to 11,000-employee (approximately 23 to 33 percent) workforce reduction, developed a communications plan to assist its executive team in communicating with both management and employees who were at risk of a layoff. The communications plan provided specific information on the state of the budget and status of downsizing plans so all employees would know what to

⁴External communications, which are critical to preserve the reputation of private firms as well as marketplace confidence, investor confidence and the company’s value, may become important to City Light and other investors.

⁵In general, City of Seattle layoffs are based on seniority as determined by the length of continuous service in employees’ present classifications and all higher classifications since their first regular appointment to their present classifications.

expect. Councilmembers also received timely updates to ensure that they could speak in an informed way to the media with regard to the workforce reduction. Weekly managers' meetings were scheduled so that the executive cabinet could simultaneously brief all the managers. One- or two-page handouts were prepared, copied and bundled for managers to disseminate to employees in their sections or units.

British Columbia also developed a survivors' plan to ensure that managers and employees had access to information to enable them to make effective decisions about the new workplace environment. A special team was organized to help the surviving managers refocus employees on new business plans and their new work assignments to ensure that the organization continued to move forward.

Shared Work Compensation Programs Offer Employers An Alternative To Layoffs

Washington State's Shared Work Compensation Program offers an alternative to both public and private employers who are adversely affected by an economic downturn. Recognizing that employers may be forced to lay off employees with significant training, knowledge, and experience, the Shared Work Compensation Program allows employers to consider reductions in the number of hours worked by employees as an alternative to temporary layoffs. Chapter 50.60 of the Revised Code of Washington authorizes unemployment compensation benefits in situations where employers elect to retain employees at reduced hours rather than instituting layoffs. Benefits are calculated based on the percentage of work hours reduced rather than the participating employees' regular earnings. Workers can participate in the shared work program up to a maximum of 26 weeks within a 12-month period.

Employers may elect to administer their own shared work program or have Washington State Employment Security administer their program. However, general conditions apply to both state- and self-administered programs in order for employees to be eligible for state unemployment compensation. Employers must certify that:

- The reduction in hours is in lieu of layoffs;
- At least ten percent of the workforce (or other identifiable work unit, such as a specific division or employee classification) will be affected;
- Normal work hours will be reduced by at least 10 percent, but less than 50 percent;
- Full fringe benefits will be provided as if no reductions occurred; and
- Collective bargaining units approve of shared work programs affecting their members.

According to Washington State Employment Security, approximately 410 private employers have implemented shared work programs, and approximately 12 public employers have implemented shared work programs during the past five to seven years. Shared work programs offer "win-win" situations for both employers and employees. Employers are able to retain knowledgeable, skilled workers who would seek other positions if unemployed and are able to quickly resume "normal" operations when the economy improves. Employees are able to remain on the payroll even though their hours are reduced and tend to maintain high morale because they are less concerned about potential layoffs.

Despite the advantages of shared work programs, the programs are not a cost-effective alternative for reducing expenditures in an economic downturn due to the unemployment insurance and fringe benefits expenses. ***Unless employers are committed to retaining the at-risk employees in the long term,*** the program expenses and extensive administrative requirements are generally not worthwhile.

Cost-Effective Early Separation Incentives for At-Risk City Employees

The Seattle Municipal Code and Personnel Guidelines authorize the Personnel Department to implement programs to transfer employees who are targeted for layoff to appropriate vacant positions in other departments, to provide outreach and job search training for employees at risk of layoff, and to refer employees who have been laid off to departments with appropriate job openings. According to the Personnel Department, a decision had not been made on whether the City will offer additional services, such as early separation and retirement incentives, extended employee assistance services, or expanded job search assistance services, to employees at risk of a layoff in 2002 or 2003. Despite the success of the Job Security Program in reducing the City's workforce and mitigating employee layoffs, the total program cost was in excess of \$3.6 million.

Seattle City Employees' Retirement System, which recently offered a "Buy Back" program for employees to purchase and restore retirement service credits, indicated that a retirement option would not be financially prudent at this time. Approximately 15 percent of the employees who separated from the City withdrew their retirement funds in 1996, and it is likely that a higher percentage of employees will do so in 2002 if a generous separation package is not offered. However, none of the public or private employers offered or planned to offer a retirement option in 2001 and 2002.

Traditionally, employees who are at risk of a layoff are most concerned about the ability to access information and resources necessary to transition into alternate employment, continued health benefit coverage, and dealing with the financial and emotional stress resulting from a job loss. Continued health benefits would cost an average of \$488 per employee each month. Based on information provided by the Washington State Department of Personnel and the surveyed private employers, the cost of individual employee and job search assistance services is \$100 per hour, and the average cost of a one-day career service workshop is approximately \$1,000 per class. Costs for a full range of career and employment services, including résumé preparation, job-interviewing skills training, and outplacement assistance, are between \$1,200 and \$8,000 depending on the classification (i. e., administrative, management, etc.) of positions sought by the affected employees.

During the 1996 workforce reduction, the City provided a severance payment option to at-risk employees based on their years of service. Severance payments of \$1,000 were offered to employees with up to one year of service; \$1,500 to employees with at least one year, but less than three years of service; and \$2,500 to employees with three or more years of service. Although only two employees selected the severance payment option, the severance option is currently equivalent to two to five weeks of unemployment compensation or two to five months of COBRA coverage.

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APPENDIX 1
CITY OF SEATTLE WORKFORCE
BY PROGRAM CATEGORY (1989–2002)

Fiscal Year	Administration	Arts, Culture, and Recreation	Health and Human Services	Neighborhoods and Development	Public Safety	Utilities and Transportation	Total Citywide Positions
1989	1,050.49	1,482.74	910.95	337.10	3,011.31	3,562.37	10,354.96
1990	1,066.58	1,543.26	997.98	362.80	3,202.23	3,652.29	10,825.14
1991	1,091.93	1,576.46	201.35	492.38	3,249.26	3,707.64	10,319.02
1992	1,028.60	1,563.35	290.22	420.00	3,228.50	3,746.74	10,277.41
1993	1,019.85	1,563.44	293.43	427.75	3,219.25	3,678.81	10,202.53
1994	992.80	1,584.66	320.93	465.25	3,245.25	3,651.82	10,260.71
1995	984.85	1,613.15	319.43	482.75	3,270.65	3,626.98	10,297.81
1996	982.55	1,650.09	348.43	455.00	3,282.99	3,616.98	10,336.04
1997	982.10	1,603.57	330.93	440.50	3,261.99	3,465.98	10,085.07
1998	991.77	1,637.29	340.18	471.00	3,280.09	3,441.48	10,161.81
1999	1,181.42	1,684.52	294.03	574.50	3,379.09	3,619.48	10,733.04
2000	1,139.52	1,813.68	307.28	573.50	3,415.09	3,678.08	10,928.15
2001	1,146.27	1,858.57	325.28	574.50	3,431.09	3,691.42	11,028.13
2002	1,151.27	1,912.85	339.48	583.50	3,429.59	3,695.92	11,112.61
Percent Change from 1989	9.6%	29%	-62.7%	73.1%	13.9%	3.7%	7.3%
Percent Change from 1997	17.2%	19.3%	2.6%	32.5%	5.1%	6.6%	10.2%

Source: Department of Finance, City of Seattle Adopted Budgets, 1989–2002 (Proposed).

APPENDIX 2
PRIVATE EMPLOYER REDUCTION IN FORCE
SEVERANCE PACKAGES AND SERVICES

Company	Severance Package	Medical Benefits	Outplacement and Training Services	Other Services
AT&T Corporation	One month of pay per year of service to maximum of six months	Benefits extended for same length of time as severance pay	Outplacement services on situational basis (i.e., call center closed)	None
Boeing Company	One week of pay per year of service up to maximum of 26 weeks (union employees)	Three to six months of paid health coverage	A maximum of \$12,000 in education benefits; job search seminars	Extended unemployment insurance up to maximum of 52 weeks
Cisco Systems	Six months' salary (two months on payroll, plus four-month lump sum payment)	Paid COBRA benefits	Interview skills and résumé classes; job placement assistance	One-third salary, plus benefits and stock options for employees who work for a local nonprofit for one year; recall options; extended period to exercise stock options; and educational sabbaticals
Datek Online	Voluntary exit package included two months of severance pay and an additional month per year of service	Two months of health benefits plus one month per year of service	None	None
Dell Computer Corporation	Two months of pay	Two months of health benefits	Job counseling services	Web site open to other firms to post job openings and to post résumés
Eddie Bauer, Inc.	One week's pay per year of service (two weeks for employees with more than five service years) up to maximum of 52 weeks	One month of health coverage for each year of service	Job search assistance and tiered outplacement services for directors, management, and non-management employees	None
Infospace.com	Two weeks' pay in lieu of notice, plus one additional week of pay for every six months of service	Benefits paid through the month of separation, plus one additional month	Outplacement services include seminars and résumé assistance	None
Motorola Corporation	Minimum of one month's pay for salaried employees	Minimum of one month of health benefits	Minimum: one month outplacement services	Additional two weeks' pay for waiving right to file legal claim

Office of City Auditor Report Evaluation Form

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* * * * *

Report: **Mitigating the Effects of a City Workforce Reduction**

Please rate the following elements of this report by checking the appropriate box:

	Too Little	Just Right	Too Much
Background Information			
Details			
Length of Report			
Clarity of Writing			
Potential Impact			

Suggestions for our report format: _____

Suggestions for future studies: _____

Other comments, thoughts, ideas: _____

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